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SUBJECT: CAMEROON'S IMF PROGRAM AT A KEY DECISION POINT

¶1. (SBU) Summary: On June 10, Pol/Econ Chief met with IMF Resrep for Cameroon Malangu Kabedi-Mbuyi to discuss the Fund's plans for Cameroon after the anticipated end of its three-year program later this month. She explained that the GRC is currently deciding whether to pursue a new IMF Poverty Growth and Reduction Fund program or request a Policy Support Instrument (PSI), which would be advisory but not have disbursements. The current program will likely be extended to February, 2009, she said. Kabedi was skeptical about the GRC's ability to qualify for a PSI and was critical of poor economic performance and weak implementation of HIPC fund programs. End summary.

Which Way to Go?

¶2. (SBU) The IMF's three-year Poverty Growth Reduction Fund (PGRF) in Cameroon was due to end in June 2008; however, according to Kabedi, Prime Minister Ephraim Inoni signed a Letter of Intent (LOI) this week seeking to extend the program until February, 2009. The LOI will go before the Board at the end of June, Kabedi said, who saw the move as a mere legal procedure to see the program through its final Board review in December, 2008. The final Mission under the current program will visit Cameroon in late August/early September to prepare for the Board meeting.

¶3. (SBU) The GRC has three options for follow-on to the PGRF, Kabedi outlined: negotiate a new PGRF (something she thought would be easy for the government to do), leave an IMF program, or request a Policy Support Instrument (PSI). While the GRC has not formally requested a PSI and the Minister of Finance says he is weighing options, the government has a clear preference for a PSI, according to Kabedi.

¶4. (SBU) Cameroon would need to qualify for a PSI by demonstrating its ability to design and implement its own fiscal management programs. A PSI would bring no conditionalities and no disbursements but would keep the IMF in an advisory role and serve as a stamp of approval for capital markets, enabling the GRC to raise new market finance, Kabedi explained. Seeking a PSI would also have the political benefits of demonstrating that the government has "graduated" from the IMF, she added. Kabedi was eager for the GRC to signal its intent "now" so there could be a smooth transition from the current PGRF into the next phase, noting this kind of transition would not be possible if a decision is not made by September (although a program could be negotiated at a later date). She acknowledged that the government "feels no pressure" on this decision; because of high oil revenues and completion of the Highly Indebted Poor Country (HIPC) initiative, the GRC has substantial cash available and "doesn't need the IMF; it just needs to understand its own need to boost the economy."

Economic Views

15. (SBU) Kabedi was highly skeptical of the GRC's ability to qualify for a PSI. She noted that the IMF Mission in February (interrupted by civil unrest and continued in Washington later in the Spring) had agreed to support the GRC's "March measures" raising public sector salaries and lowering tariffs and taxes on a number of basic commodities. In return, the government had promised to fund the measures by reducing spending in non-priority sectors, Kabedi said.

16. (SBU) Kabedi was downbeat about the overall economy and questioned the government's seriousness about economic reform. She was critical of the government's very low revenue base, continued subsidies of fuel, slow movement on privatization, and lack of vision on investment and agriculture. She conceded there has been progress since 2005 on public finance reform (especially in improving transparency, monitoring and data collection); the government will soon adopt a medium-term plan to boost revenues and is working on a similar plan to reduce expenditures, as well as plans to spur private sector growth and financial sector reform, Kabedi said.

17. (SBU) Commenting on use of the HIPC fund, she said debt relief funds had been appropriately transferred into the government's HIPC account but implementation of HIPC-funded projects was very poor (about 50% of the funds in the 2007 account had been spent). She blamed this on poor planning, administrative inefficiency, and slow and late decisionmaking. While not discounting the possibility of corruption ("this is Cameroon after all"), and acknowledging some financing irregularities in the early days after HIPC completion, she thought the account had been well audited and

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she had "no proof of misuse".

Comment

18. (SBU) We share Kabedi's skepticism about the GRC's ability to do effective fiscal planning and policy implementation. Cameroon's government is highly dysfunctional, failing to spend half of its annual budget. Decisionmaking is slow and highly centralized, planning and coordination are weak, and corruption is rampant. We are more convinced than Kabedi appears to be that there has been some misuse of HIPC money. While it is good that the GRC is thinking beyond needing the IMF, in our view a Fund program still has a useful role to play in keeping Cameroon's fiscal house in order and pushing the economic reform agenda.

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